

VRatio Analysis of Tata Steel and Jindal Steel (A Comparative Study)

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ABSTRACT

The Ratio analysis forms an essential part of the financial statements which is a vital part of business planning. It is used to evaluate various aspects of two steel industries' liquidity, profitability and solvency performance. To maintaining the proper liquidity will minimize the risk of insolvency and it give a direction to maximize profitability through maintaining creditworthiness in the market. This paper is focused on examining liquidity and profitability position of Tata Steel and Jindal Steel Power using the ratios like CR, QR, GPR, NPR, OPR, DER and FATR. The study is based on secondary data of last 5 years. This study is conducted purely based on secondary data obtained through website of both industries.

Keywords: *DER, FATR, profitability and liquidity*

I. INTRODUCTION

Ratio is an expression of relationship between two or more items in mathematical terms. Exhibition of meaningful and useful relation between different accounting data is called Accounting Ratio. Ratio analysis is a medium to understand the financial weakness and soundness of an organization. Keeping in mind the objective of analysis, the analyst has to select appropriate data to calculate appropriate ratios. Interpretation depends upon the caliber of the analyst. Ratio analysis is useful in many ways to different concerned parties according to their respective requirements. Ratio analysis can be used in the following ways:

- To know the financial strength and weakness of an organization.
- To measure operative efficiency of a concern.
- For the management to review past year's activity.
- To assess level of efficiency.
- In inter and intra company comparisons.

II. TATA STEEL LIMITED

Tata Steel Ltd is the world's 10th largest steel company and the worlds 2nd most geographically diversified steel producer. The company is a diversified steel producer with major operations in India, Europe and South East Asia. They have manufacturing units in 26 countries and a presence in 50 European and Asian markets. Tata Steel Ltd was incorporated in the year 1907 with the name Tata Iron & Steel Company Ltd. In the year 1911, the company commenced the operations of the first Blast Furnace or the A Blast Furnace. Tata Steel

targets 20% of market share in 2020. Its products are Hot Rolled, Cold Rolled, Coated coil, Tubes, Rebar, Wire Rods.

III. JINDAL STEEL AND POWER LIMITED

JSPL is an industrial powerhouse with a dominant presence in steel, power, mining and infrastructure sectors. Part of the US \$ 18 billion OP Jindal Group this young, agile and responsive company is constantly expanding its capabilities to fuel its fairy tale journey that has seen it grow to a US \$ 3.3 billion business conglomerate. Led by Mr Naveen Jindal, the youngest son of the legendary Shri O.P. Jindal, the company produces economical and efficient steel and power through backward and forward integration. From the widest flat products to a whole range of long products, JSPL today sports a product portfolio that caters to markets across the steel value chain. The company produces the world's longest (121-meter) rails and it is the first in the country to manufacture large-size parallel flange beams.

IV. REVIEW OF LITERATURE

Maheswari (2015) made an attempt to analyze the financial soundness of the Hero Honda motors limited have identified three factors, namely liquidity position, solvency position and profitability position based on the study of period 2002 to 2010 using ratio analysis. **Penman (1989)** identified ratios that predicted earnings changes in the data, no thought was given to identification. **Ohlson (1995)** and **Feltham and Ohlson (1995)**, served as an analytical device to organize thinking about forecasting and analyzing financial statements for forecasting. This model is a statement of how book value and forecasted earnings relate to forecasted dividends and thus to value. The ratio analysis in this paper follows from recognition of standard accounting relations that determine how components of the financial statements relate to earnings and book values.

V. OBJECTIVES OF THE STUDY

- To study the financial performance of Tata Steel and Jindal Steel and Power.
- To compare the financial performance of Tata Steel and Jindal Steel and Power.

VI. RESEARCH METHODOLOGY

- **Research design:** Exploratory research design was adopted for present study to analysis and interpretation of available information.
- **Data for Research:** The secondary data is used and collected from company websites.
- **Period of the study:** The study is covering 5 years during the period from 2012-13 to 2016-17.
- **Tools for analysis:** The study uses different ratios, correlation analysis to verify the comparative financial statements.

VII. DATA ANALYSIS AND INTERPRETATION

Table 1 & 2: Liquidity Ratios

Tata Steel Limited		
Years	Current Ratio	Quick Ratio
2012-13	0.86	0.61
2013-14	0.57	0.32
2014-15	0.6	0.3
2015-16	0.52	0.32
2016-17	0.55	0.28
Average	0.62	0.37
SD	0.137295	0.137405
COVAR	451.5814	269.2779

Jindal Steel and Power		
Years	Current Ratio	Quick Ratio
2012-13	0.76	1.16
2013-14	0.71	1.05
2014-15	0.7	1.2
2015-16	0.44	0.86
2016-17	0.36	0.55
Average	0.59	0.96
SD	0.180776	0.266327
COVAR	0.156045	0.243578

Source: Dion Global Solutions Limited

VIII. ANALYSIS AND INSIGHTS

Table 1 shows the liquidity ratios like current ratio, quick ratio during the year 2012-13 to 2016-17 of Tata Steel. The average current ratio was .62 and standard deviation is 0.137295 and it varies 451% during the last 5 years. The current ratio shows decreasing trend in first 2 years and then increased and then decreasing trend during study period. Lowest current ratio is 0.52 during the year 2015-16, and highest ratio is 0.86 during the year 2012-13. It shows that the company failed to maintaining current ratio the ideal standards of 2:1. The average quick ratio was .37 and standard deviation is 0.137405 and it varies 269% during the last 5 years. The quick ratio also shows decreasing trend during study period The lowest quick ratio is .28 during the year 2016-17 and highest ratio is .69 during the year 2012-13.

Table 2 shows the liquidity ratios like current ratio, quick ratio during the year 2012-13 to 2016-17 of Jindal Steel & Power. The average current ratio was .59 and standard deviation is 0.180776 and it varies .156% during the last 5 years. The current ratio shows decreasing trend during study period. Lowest current ratio is 0.36 during the year 2016-17, and highest ratio is 0.76 during the year 2012-13. It shows that the company failed to maintaining current ratio the ideal standards of 2:1. The average quick ratio was .96 and standard deviation is 0.266327 and it varies .243% during the last 5 years. The quick ratio also shows decreasing trend during study period The lowest quick ratio is .55 during the year 2016-17 and highest ratio is 1.16 during the year 2012-13.

Table 3 & 4: Profitability Ratios

Tata Steel Limited			
Years	Operating Profit Ratio	Gross Profit Ratio	Net Profit Ratio
2012-13	29.12	24.83	13.25
2013-14	31	26	15

Jindal Steel and Power Limited			
Years	Operating Profit Ratio	Gross Profit Ratio	Net Profit Ratio
2012-13	26.33	19.32	10.64
2013-14	26	17	9

2014-15	23.95	19.17	15.41
2015-16	18.87	13.81	12.82
2016-17	24.74	17.36	7.17
Average	25.54	20.23	12.73
SD	4.75	5.12	3.30

2014-15	27.67	14.33	-2.32
2015-16	17.35	5.45	-8.11
2016-17	20.63	5.88	-7.12
Average	23.60	12.40	0.42
SD	4.41	6.40	8.88

Source: Dion Global Solutions Limited

IX. ANALYSIS AND INSIGHTS

Table 3 shows that the different profitability ratios during the year 2012-13 to 2016-17. All three ratios depict the rising trend during the study period. Table shows that the lowest OPR, GPR and NPR are 18.87%, 13.81% and 7.17% respectively during 2015-16. In the year 2012-13 OPR and GPR show highest ratio that are 29.12, 24.83%. It shows that the overall profitability of the Tata Steel was positive during the study period and the average ratio in between 25.54, 20.23 and 12.73%.

Table 4 shows that the different profitability ratios during the year 2012-13 to 2016-17 of Jindal Steel & Power. All three ratios depict the decreasing trend during the study period. Table shows that the lowest OPR, GPR and NPR are 17.35%, 5.45% and -8.11% respectively during 2015-16. In the year 2012-13 OPR and GPR and NPR show highest ratio that are 27in 2014-15, 19 and 10in 2012-13 respectively. It shows that the overall profitability was positive during the study period and the average ratio in between 23.60, 12.40 and .42%.

Table 5 & 6: Solvency Ratios

Tata Steel Limited		
Years	Debt/ Equity Ratio	Fixed Assets Turnover Ratio
2012-13	0.47	1.01
2013-14	0.43	1.07
2014-15	0	1
2015-16	0.44	0.88
2016-17	0.61	0.6
Average	0.39	0.91
SD	0.23	0.19

Jindal Steel and Power Limited		
Years	Debt/ Equity Ratio	Fixed Assets Turnover Ratio
2012-13	1.58	0.8
2013-14	1.74	0.6
2014-15	2	0
2015-16	2.09	0.46
2016-17	1.11	0.3
Average	1.70	0.43
SD	0.39	0.30

Source: Dion Global Solutions Limited

X. ANALYSIS AND INSIGHTS

Table 5 reveals that long term solvency ratio of Tata Steel during the year 2012-13 to 2016-17. Total debt to equity show decreasing trend from 2012-13 to 2015-16 and increased in 2016-17 Debt equity ratio is Zero in 2014-15. Fixed assets turnover ratio shows a mixed trend during the study period that move around .6 to 1.07%. The average Debt equity and Fixed assets turnover ratio is .39 and .91 respectively.

Table 6 reveals that long term solvency ratio of Jindal Steel & Power during the year 2012-13 to 2016-17. Total debt to equity show mixed trend from 2012-13 to 2015-17. Fixed assets turnover ratio also shows a mixed trend during the study period that move around 0 to .8. The average Debt equity and Fixed assets turnover ratio is 1.70 and .43 respectively.

XI. CONCLUSION

A study has been highlighted the comparative analysis of liquidity and profitability and solvency position of Tata Steel Limited and Jindal Steel & Power Limited. Hence, it is suggested that both the companies should maintain ideal current ratio & quick ratio. Sale and profits are increasing year by year. The solvency ratio shows a mixed position and it should be maintained according to the expectation of the investors

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